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We don't sit around and groom our horse at night.

George Meiling, Banc One Corp.'s treasurer, discussing his company's widely perceived role as a white knight [Page 2]

Unquote

Fed May Speed Date for Check Hold Rule

Strict Limits May Take Effect Before September 1990

By BARBARA A. REHM
Washington Bureau

WASHINGTON — The Federal Reserve Board may move up the date when banks and thrifts must begin processing local checks in one day and nonlocal checks in four days, according to a Fed official.

Depository institutions, under the Competitive Equality Banking Act signed by President Reagan on Aug. 10, must meet these check-clearing timetables by Sept. 1, 1990. A temporary schedule in force from Sept. 1, 1988, through the 1990 kick-in date, allows banks and thrifts a maximum of two days to make funds available for local checks and six days for nonlocal checks.

the Banking Bill what's ahead

But the Fed hopes to oblige a request from Congress by asking the central bank to implement the permanent schedule as quickly as possible, Elliott C. McEntee, associate director of the Fed's bank operations division, said in an interview.

"We certainly see some advantage in accelerating the schedule, and we're going to look at it seriously," he said.

Currently, there is no federal law on how quickly banks and thrifts must make checking deposits available for withdrawal. Banks and thrifts claim that without some technological breakthrough or major changes in the check processing system, they will be making money available to customers before the institution is sure the check is good.

Under the new law:

- Depository institutions will be required to make funds available the following business day for cash deposits and wire transfers, government checks, checks deposited in one branch of an institution and drawn from another branch, certified checks, teller's checks, and cashier's checks.
- Banks and thrifts must make available the first $100 of any deposit for cash withdrawal at the opening of business the day following deposit; the next $400 of the deposit must be available no later than 5 p.m. the next day, and the bal-

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FROM THE REGIONS

THE MIDWEST

Analysts Foresee Unfriendly Trend in Mergers

By RICHARD RINGER
Midwest Bureau

CHICAGO — Midwest bankers no longer can count on friendly bank mergers, according to analysts.

While mutually negotiated acquisitions remain preferable for bankers — and are, by far, the most prevalent — a number of analysts say unfriendly and unsolicited takeovers will become more common.

Regulatory hurdles to hostile takeovers are no longer perceived to be as insurmountable as they once were, the analysts say. Moreover, commercial bankers, faced with slow loan demand and increased competition from nonbanks, are now more willing to attempt unfriendly takeovers.

An indication of the changing environment is that bank consultants and law firms with banking practices are offering advice and preparing reports on

how to complete or, if need be, ward off hostile takeovers.

"You will see [hostile] takeover attempts," said Joseph Stieven, a banking analyst with Stifel, Nicolaus & Co. Inc., St. Louis. "People were naive if they thought unfriendly deals wouldn't happen."

One such attempt was originated last October by Exchange International Corp., with assets at the time of $1.5 billion. The parent of Exchange National Bank, Chicago's fifth largest bank, made an uninvited tender offer for the $163 million-asset Madison Financial Corp. A. Andrew Boemi, chairman and chief executive officer of Madison, called Exchange's $35-per-share unsolicited offer a raid and set out to defeat it. Madison operates three banks in downtown and suburban Chicago.

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Moody's Downgrades Ratings On Debt of 4 Japanese Banks

By JOHN P. FORDE

NEW YORK — Citing the effects of deregulation in the Japanese financial system, Moody's Investors Service downgraded its investment opinion on the debt of four Japanese banks.

Moody's changed the debt ratings for Bank of Tokyo, Long-Term Credit Bank of Japan, Mitsubishi Trust and Banking Corp., and Sanwa Bank.

The rating agency said on Tuesday that the downgrades reflect its view that "a broad set of emerging risks — associated with changes occurring in the Japanese financial system — will have a modestly unfavorable impact on the banks' credit quality."

U.S. securities issuers might feel repercussions from Moody's decision. Japanese banks have become major players in "structured finance" deals, which include the Japanese banks' issuance of letters of credit to back up U.S. securities issues.

Moody's placed the banks' ratings under review in June. Donald E. Noe, a vice president and associate director at Moody's, said expectations that the ratings would be downgraded had a negative effect on the market for structured finance transactions "until investors realized there wouldn't be a free-fall in the ratings."

In fact, the downgrades could be good for market development. "Over time, the ratings will contribute to some pricing efficiencies," Mr. Noe said in a phone interview on Tuesday.

Market Might Expand Further

The variety of ratings, and the differences in pricing among them, could cause "deepening in a market which was huge to begin with." He said, for example, that domestic banks with less than an Aaa rating on their own debt are issuing letters of credit to back securities issues.

Moody's downgraded the long-term debt ratings and ratings for long-term deposits of Bank of Tokyo from Aa1 to Aa2; for the Long-Term Credit Bank, from Aaa to Aa2; for Mitsubishi, from Aaa to Aa1; and for Sanwa Bank, from Aaa to Aa1. The banks' ratings on all structured finance issues, including obligations backed by letters of credit from these banks, were also downgraded.

The rating on medium-term notes of Sanwa Business Credit Corp., a wholly owned subsidiary of Sanwa Bank, was also reduced, from Aaa to Aa1. The four banks' ratings for short-term deposit obligations — all Prime-1 — and Sanwa Business' Prime-1 rating for commercial paper, were not placed under review and are unchanged.

Moody's also confirmed its Aaa ratings for four Japanese banks — Fuji Bank, Mitsubishi Bank, the Norinchukin Bank, and Sumitomo Bank — and its Aa2 rating for Tokai Bank.

Moody's said these confirmations "recognized the banks' relative ability to adjust to shifting pressures resulting from deregulation of the Japanese financial system."

3 Banks Under Review

Moody's is reviewing for possible downgrade the long-term debt ratings and the ratings for long-term deposit obligations of three more Aaa-rated institutions: Dai-Ichi Kangyo Bank, the Industrial Bank of Japan, Sumitomo Trust and Banking Co., as well as Mitsui Trust and Banking Co., which is rated Aa1. The review will also include the ratings on all structured finance issues, including obligations backed by letters of credit from these banks. The four banks' ratings for short-term deposit obligations, all Prime-1, are not being reviewed.

The reasons for the changes in ratings for Japanese banks, such as the increasing risk attendant in new businesses being entered by the institutions, are similar to those cited by Moody's in a major review of the ratings of U.S. banks earlier this year.

Moody's said intensifying competition in Bank of Tokyo's core international wholesale banking franchise, and the potential for erosion of this franchise through the continued development of globalized capital markets, was the major reason behind its downgrade of the company's long-term debt.

Also, the rating agency believes the bank does not have a broad domestic network that would help it compete with its peers in some domestic financial sectors that are likely to be growth areas in the future.

The rating agency believes Mitsubishi Trust "will continue to be a significant participant in the financial services sector." However, Moody's predicted that intensifying competition will reduce the disproportionate share of the profits in this market that the trust banks currently enjoy.

Mitsubishi's domestic branch network is smaller than the networks of Japanese city banks, a fact that may hold it back from getting a significant share of the small and medium-size corporate and consumer markets. Also, Moody's said, Mitsubishi will face greater than average risk because of its expansion into international financial markets and its greater involvement with securities business.

Like Mitsubishi, the Long Term Credit Bank has a smaller domestic branch network than the major Japanese city banks. This will slow the institution's penetration into the retail and middle markets, although its relatively low cost structure affords opportunities for its transformation into a provider of broadly based financial services.■

Corrections

An article on Aug. 21 ("Chase Names Boyle to Head Global Bank," page 2) incorrectly reported the new position of Richard J. Boyle. He is vice chairman and global bank executive at Chase Manhattan Corp. Frank Terracciano, whom Mr. Boyle replaced, left Chase to become president of Mellon Bank Corp., Pittsburgh. His new position was incorrectly reported.

□

An article on Aug. 21 ("Consultants Who Help Banks Collect," page 3) misstated the name of a consulting firm, Schaer Associates Inc. Its founder is Alfred E. Schaer.

□

A table on Aug. 14 ("International ATM Interchanges, page 15) should have qualified the listing of American Express Co.'s Express Cash network as the largest automated teller machine interchange in the world. More than 6,000 of the network's 23,795 ATMs are available only to cardholders in Japan. Therefore, except for Japanese cardholders, the Express Cash network is smaller than the Visa network of 19,203 machines. Also, the table did not include 37 ATMs in Japan that have been connected to the Plus System through the Bank of Hawaii.

□

An article on Aug. 11 ("MasterCard Bets on Charity as a Way to Get to Customers," page 6) omitted the name of one organization participating in MasterCard's cause-related marketing campaign this fall. It is the American Heart Association, Dallas. ■

INTERNATIONAL BRIEFING

Chase's Relationships in Japan May Be Foundation for Expansion

TOKYO — Chase Manhattan is one of the best-known foreign banks here. After four decades in this country, Chase has built a network of relationships that encompasses most major financial institutions and corporations.

Maintaining relationships is very important to Chase as it completes the restructuring of its Tokyo operations. Led by capital market specialist Robert Binney, Chase is distancing itself from a history of commercial banking.

With operations centered on private placements, swaps, trust banking, leveraged leasing, and the underwriting of Euromarket issues, Chase is increasing fee-based income while moving into new frontiers such as securities trading and mergers and acquisitions.

"Chase has more relationships than any other foreign bank in Japan, and that's key when you are trying to launch new products in this marketplace," said Mr. Binney, Tokyo general manager of Chase Manhattan Bank. "We don't have to sell ourselves — they already know who we are. Our job is to sell products that aren't normally associated with Chase."

Perhaps the biggest step Chase has taken in its quest for greater market share is the establishment of a securities representative office in Tokyo. Though many European banks in Japan have achieved universal banking status — meaning they can deal in securities — no U.S. bank has been able to enter the market without going in through the back door. Chase was no exception.

To date, only two other U.S. banks have managed to enter that market: Citicorp, by purchasing Vickers da Costa, and Security Pacific, with Hoare Govett providing the beachhead.

How Chase Created Securities Operation

Ever since Japanese regulators allowed Vickers da Costa to continue Tokyo operations after Citicorp purchased it in 1984, Chase has wanted a Japanese securities operation. To fulfill that goal, the bank bought the London-based broker Laurie, Milbank & Co., renaming it Chase Manhattan Securities.

Prior to the purchase of Laurie Milbank, Chase had been refused entrance to the securities market many times by the Japanese Ministry of Finance. Under the new setup, Chase received regulatory approval to create LM Securities, a Channel Islands subsidiary 50% owned by Chase and 50% by private individuals.

"Chase can now perform exactly the same functions that the powerful and wealthy Japanese brokers perform," said Mr. Binney. "We finally managed to work around Article 65 [the Japanese version of the Glass-Steagall Act] to receive a license to trade and distribute debt and equities in Japan. That puts us in limited company. The next step for LM Securities is to secure a seat on the Tokyo Stock Exchange."

Competition for domestic securities business in Japan is fierce, but Chase believes it has potential for huge growth and profits. Brokers such as Nomura, Daiwa, Yamaichi, and Nikko have taken advantage of high commission structures to be among the most profitable financial concerns in the world. Though the Japanese have tended to capture foreign market share by cutting spreads, Chase will try to attract business by offering superior service.

Valuable Licenses

With its new securities operation in the works, Chase has three valuable licenses under its belt. Besides commercial banking and securities, Chase has a much desired trust banking license. No Japanese institution has all of these licenses, and only four foreign banks have the same capability. By connecting these three areas, Chase will build its future Japanese operation.

Entering the lucrative pension fund management business was a coup for Chase. Only eight other foreign banks are licensed to manage Japanese corporate liquidity and pension accounts. With average annual growth of 15% — which industry officials say is likely to continue — pension funds under management would rise from $140 billion to more than $600 billion by the turn of the century. Of new money coming under management, about $80 billion will be managed in foreign markets.

With a securities operation in place to boost its trust banking operation, gaining management responsibility for even a small share of this multibillion-dollar business would increase profits substantially. "Trust banking is a natural adjunct to our securities business," said Mr. Binney. "Judging from the reported profitability of the top four securities houses and the big eight trust banks, fund management may not be as profitable as securities trading, but there is a lot of business floating around out there."

Commercial Banking Still Important

Though Chase is busy setting up new trust headquarters and recruiting staff, the bank has not given up on segments of the commercial banking market. Yet, this sector has changed considerably from the days when the bank lent money to cash-starved Japanese corporations.

Now, Chase has to deal with corporate treasurers that are used to having their way in any of the globe's major capital markets.

The Chase commercial banking strategy is to add fee income to the books without putting more assets on the balance sheet. Acting as arranger rather than principal, the bank is de-emphasizing loan business in favor of the middleman position on major deals.

This capital market activity includes acting as lead or colead manager for Japanese issues, arranging the two sides of a private placement by using the bank's worldwide network, putting together currency and interest rate swaps, and arranging leveraged leases in which the equity stays in Japan, while the debt may be placed elsewhere.

— David Lake